

## Section 4 - After bankruptcy

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## Responsibilities and restrictions

### What happens to my debts after I am discharged from bankruptcy?

Discharge from bankruptcy releases you from all Provable Debts in bankruptcy. All such debts no longer exist and you cannot be pursued by creditors for payment.

If a creditor does seek to recover money from you for a debt incurred prior to the date of your bankruptcy and which was included in your bankruptcy as a provable debt, please contact the Insolvency and Trustee Service immediately.

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### What debts am I still liable for?

Bankruptcy does not cover all your debts. You will remain personally responsible for:

- Court and traffic fines and Court ordered reparation (compensation) payments.
- Maintenance and child support payments administered by Inland Revenue (IRD).
- Advances and overpayments that you may have received from Work and Income New Zealand.

- All debts incurred after the date of your bankruptcy, including tax.

You will of course have to continue paying your normal living costs, including rent or mortgage payments, rates, electricity and other household expenses.

## Will my credit history be affected?

Your credit history is likely to be affected for up to seven years (this is the length of time that credit agencies keep records of your bankruptcy).

However, if you have successfully applied for an annulment (cancellation) of your bankruptcy, you can request that credit agencies reflect this annulment in their records.

**Note** | credit agencies (such as Veda Advantage and Dun & Bradsreel) operate internationally and their websites ([www.vedaadventure.com](http://www.vedaadventure.com) or [www.dnb.co.nz](http://www.dnb.co.nz)) as well as the Insolvency and Trustee Service website ([www.insolvency.govt.nz](http://www.insolvency.govt.nz)) can be accessed by anyone here or overseas wishing to view your credit history.

As soon as you have been discharged from bankruptcy it is in your best interest to start rebuilding a more positive credit history. You will find tips on how to do this in the rest of this section.

## Steps to avoid bankruptcy happening again

This section offers a brief overview of steps you can take to improve your financial and budgeting skills. It is not meant to replace the kind of services provided by a Budget Advisory Service. Instead its purpose is to give you some brief tips to get you started on the path to rebuilding your life.

Bankruptcy may not be a pleasant experience but it does provide you with an opportunity to go back to the drawing board and to make a fresh start after three years. The period of your bankruptcy is a time to take stock of where you are in life and seek to improve that position.

You should strive to put yourself in a better position at the end of your bankruptcy than you were at the beginning.

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## Why did it happen?

As already noted, bankruptcy is not a pleasant experience during which you are no longer in full control of your life. This makes it all the more important for you to make sure it does not happen again. If you can identify the cause, you can take steps to make sure it does not happen again.

## Looking back

It can be useful to think about the reasons you became bankrupt. Thinking about these may help you to come up with strategies to avoid something similar happening to you in the future.

You may have been forced into bankruptcy through all sorts of reasons. The most common reason is taking on excessive debt. Here are some other common examples:

- Signing a personal guarantee to help a friend or child get credit for a business venture that turned sour.
- Losing a job, and with it the capacity to pay for debts you entered into.
- Not having appropriate insurances in place to cover some catastrophe, such as fire or flood or public liability for damage caused.
- A major debtor (person or business that owed you money) failed to pay.
- Borrowing funds for a business venture that did not pay off.
- Developing a compulsive gambling habit.
- Suffering from an alcohol or drug addiction

For each of these causes there is a solution or an issue you can start addressing.

## Important information

Do not wait until after bankruptcy to tackle the issues that led to your bankruptcy. Think about how you can avoid them as soon as you become bankrupt.

### Credit card abuse

Excessive use of credit cards is a common problem. Remember that credit card money is very expensive money. Acquiring a new credit card to pay off other credit cards is a signal that your debt situation is getting seriously out of hand.

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### Draw up a budget

The next step is to complete your budget. It is good idea to get some help from a Budget Advisor the first time you do this.

You can also visit the [www.sorted.org.nz](http://www.sorted.org.nz) website and click on the online Budget calculator (right hand column). The Managing Debt section of this website also offers much useful information.

Once you have completed a budget you can track and direct your spending far more efficiently and also fine-tune the budget.

## Important information

If you make the budget too strict you are less likely to stick to it, so include some 'fun money' for yourself and the children in the budget.

The best way is to reward yourself and your family for sticking to the budget by setting aside a small amount each week that will enable you to eat out or go to the movies once in a while.

### Develop your money skills

Shops and business try all sorts of tactics to get us to buy their goods. We are all constantly bombarded by buying messages.

You are encouraged to 'buy it now' and pay it off later.

Faced with these pressures, many people simply do not realise they are getting too far into debt.

Here are some simple money rules:

- Avoid taking on more debt than you can handle. Always work out the true cost of an item (not just what you will pay weekly).
- Very often the true cost is far more than the advertised price.
- If you have difficulty in stopping yourself from buying more than you can afford, get help from one of the many Budget Advisory Services throughout New Zealand and learn budgeting skills.
- Pay cash if you can. That way, you know exactly how much you are spending. Having to open your purse or wallet makes you think twice about what you are about to buy.
- Think about the difference between what you want and what you need. There is a difference. Of course we all want as much as possible. In particular we want all the bright shiny things that the neighbours have. But what do we really need? Our actual needs are always far smaller than our wants. Focus on your real needs.
- The credit you get on your credit card is very expensive money. Most credit cards charge around 18% to 21% for the money they offer you. That is a very high rate of interest. Credit card companies may try to entice you to use their card by offering a much lower interest rate for a period (such as the first 6 months), but they will put their rate up to the average of 18% to 21% as soon as the introductory period ends.
- Hire purchase can also be a very expensive way of financing what you want. Most people do not even bother to work out the final amount. Instead they just look at the weekly amount they have to pay.

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## Get advice first

Make sure you work out the true cost of what you are buying. Try to get a cheaper finance rate or better still, wait until you can pay cash. Get advice first from a Budget Advisor about a deal you are considering.

For example, Sam saw a car advertised for \$8,000, or no deposit and \$445 per month for 36 months.

He thought he could afford \$445 a month, so he did not bother to work out that \$445 multiplied by 36 payments came to \$16,020!

So Sam will end up paying \$16,020 for a car worth only \$8,000. In three years time when Sam has finished paying for the car, Sam will be lucky to get \$2,000 for the car if he were to sell it.

This means Sam ends up paying \$16,000 for a car that was only ever worth \$8,000 and is in fact worth only \$2,000 when he has finished paying for it.

\$14,000 of Sam's money has disappeared in three years.

## Resist buying pressures

### Tempting credit offers

We all get constantly bombarded with sales messages. Many businesses offer very 'generous' credit terms, or 'pay nothing until next year' type deals. Some even go so far as to offer you money to sign up for a purchase.

### Pressure to keep up

Many people want the same goods and luxury items that they see their neighbours using, such as smart cars or giant TV screens. The temptation to keep up with the neighbours (or the neighbours' children) can easily lure you into overspending.

## Resist pressure from your family

It is only natural for you to want your children to have the same advantages as other children they mix with at school.

Your children may also come under pressure from their schoolmates if they do not have the right things and they can put considerable pressure on you to buy them 'cool' clothes, electronic games or mobile phones.

Some tactics:

- It is important to explain to your children that the whole family has to live within a budget.
- Encourage each child to work out their own budgets and stick to it. Try to make it fun.
- Give them a set amount of pocket money each week and resist any top-ups.

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## Teaching children budgeting skills

One single mother offers these tips for teaching children good money skills:

- Lead by example. If children see that you are ill disciplined with money then they are likely to follow in your path.

- If you commit to paying them pocket money, then be consistent and pay on time. They know where they stand and this teaches them that they too must pay people on time.
- Include children in your budgeting process so they are aware the household has only a limited amount each week for food and expenses.
- If they ask for things that you cannot afford (such as electronic games or expensive clothes), then rather than saying 'No' outright, acknowledge what they want and then ask them "How do you think we can afford it?" This encourages children to be aware that you do have limited resources and they may even suggest creative ways of trimming household expenses.
- Encourage your children to be creative about raising their own money. You might consider paying them small amounts to complete chores, or encourage them to wash a neighbour's car or mow lawns.

## Simple tips on better money management

- Most expenses are predictable. If you find that unexpected expenses turn up too regularly, it is a sign that you are not budgeting effectively. For example, tyres on a car will wear out and the battery may not last beyond three years (it is most likely to die in the middle of winter). These things are predictable, and by setting money aside regularly you will avoid stress.
- Avoid signing personal guarantees, especially for debts others will be responsible for. Think of what you might lose if the deal goes sour. Can you really afford the loss?
- Take out appropriate insurance on your house and large ticket items (such as a car you may owe money on) to cover accidents, loss of income (your job), loss through fire, earthquake, floods or public liability.

## Save today for choices tomorrow

If you save today, you reduce the choices you have today, but you increase the choices you will have in the future.

## Bargains

One single mother furnished her whole house through garage sales:

"I made a point of finding out where all the garage sales were going to be and getting there as early as possible. I have been able to pick up some excellent pieces for a fraction of their value."

## Get more for your money

Here are some commonsense tips on getting more for your budget:

- Cook rather than buy take-aways. It is cheaper and healthier.
- Stick to your budget no matter what the temptation.
- Keep money aside for emergencies and unexpected costs—they will always crop up.
- Regularly check used clothing shops for bargains. Many people get bored very quickly with their clothes so it is possible to pick up quality garments for just a few dollars.
- You do not need to buy everything brand new. Websites such as TradeMe or publications such as Buy Sell and Exchange are sources of good bargains that can save you money. It is also possible to earn some extra money by selling things you no longer need, such as music CDs, books and DVDs.
- Keep in touch with your Budget Advisor. They will have many useful tips to share with you.

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## If you run a business...

- If you are in business, continue to build your financial skills. There is always more to learn. Contact the nearest Economic Development Agency ([www.edanz.org.nz](http://www.edanz.org.nz)) or visit the New Zealand Trade and Enterprise website ([www.nzte.govt.nz](http://www.nzte.govt.nz)).
- Many businesses fail because they lack clear systems and the owner does not understand how to monitor the business 'hot buttons' or control the flow of cash in and out of the business.
- Get help from an accountant or financial advisor on how to monitor the progress of your business through measuring tools. Regularly monitoring your business through key performance indicators will help you detect any deteriorating trends early enough to take action.

- Take this a step further by putting together a team of advisors to help you build your business. The team might typically include an accountant or reputable financial advisor, a lawyer, your bank manager and perhaps a marketing consultant if you lack marketing skills.
- Take out appropriate insurance to cover accidents, loss of income (your job), or loss through fire, earthquake, floods or public liability.
- Be wary of extending credit too easily. If you go to a bank and ask for a loan, they will make you fill in a credit application form and ask you to supply appropriate details about yourself and your business. Do the same for businesses that want credit from you.
- Follow consistent and systematic debt collection policies. The sooner you take action on overdue payments, the more likely you are to get paid.
- Maintain good communications with your creditors. If you make a point of paying them on time they will be more likely to help you out when you experience tough times.
- Ensure you keep up your compliance obligations (for example, tax obligations, ACC and OSH requirements).

### **Note**

It is safer to have many smaller customers or clients rather than rely on a few bigger customers or clients.

## **Organising your tax and financial affairs**

It is very important to take care of your tax payments because there are late filing penalties as well as interest charges that can quickly mount up.

You have four basic tax obligations:

1. Register for the right tax types depending on your situation (for example GST, PAYE, FBT)
2. File tax returns by the due date
3. Pay the amount required by the due date
4. Make sure what is stated on the returns is accurate.

If you work for someone else, then PAYE should take care of most or all of your income tax obligations. However, if you work for yourself, then you need to be more disciplined about setting money aside for:

- Income tax
- Possible Provisional tax payments
- Payroll taxes on wages and salaries
- GST payments
- Fringe Benefit Tax (FBT)
- Student loan repayments

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## **Getting free help**

Inland Revenue offers a free business tax information service to businesses. Their advisors will tell you:

- which taxes you need to know about
- what records you need to keep
- how to complete your tax returns (for example, GST and employer returns)
- when to file returns and make payments.

To find out more about these services or to arrange an appointment, visit [www.ird.govt.nz](http://www.ird.govt.nz) or phone Inland Revenue toll free 0800 377 774.

## Important tax information

Always file returns by their due date even if you cannot pay or are getting a credit. Late filing penalties can range between \$50 and \$500. Late tax payments can attract interest charges as well that can quickly mount up.

## Useful Guide

A useful introductory guide to your taxation responsibilities is the Smart Business Guide (IR320), which can be downloaded from [www.ird.govt.nz](http://www.ird.govt.nz) (search for "IR320").

## Tax management tips

Here are some further tips to manage your taxes more effectively:

- Get advice from an accountant, qualified bookkeeper or financial advisor on how to predict the tax you will have to pay.
- Start a separate bank account to save for tax payments. Set aside regular amounts in this account to cover your tax obligations.
- Remember that if you are registered for GST you are collecting GST amounts on every invoice you send out. This money is not yours; it belongs to IRD.
- Never think of the tax money as 'yours'. Resist the temptation to use tax money (especially GST) to provide working capital for your business.
- PAYE and deductions from employees' wages are also not 'yours'. These are trust monies and belong to another party, so don't be tempted to use these funds for propping up your business.

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## Important tax information

If you know you will be unable to pay a large tax bill, get help fast before the bill is due.

Make an approach to Inland Revenue with the help of a third party, such as a budget advisor, an accountant or other financial advisor. You may be able to come to terms with Inland Revenue about paying off the tax owed and avoid further penalties.

This could make a real difference to your ability to work through your debts!

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Steps to avoid bankruptcy and information about what will happen during your bankruptcy

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## [Section 2 - Insolvency Act 2006](#)

An overview of the Act.

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### **Section 3 - During bankruptcy**

Understanding your responsibilities and what happens during your bankruptcy

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### **Section 4 - After bankruptcy**

Steps you can take to rehabilitate yourself and prevent bankruptcy happening again

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### **Section 5 - Helpful resources**

Organisations and web links that might be useful before, during, and after bankruptcy.

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